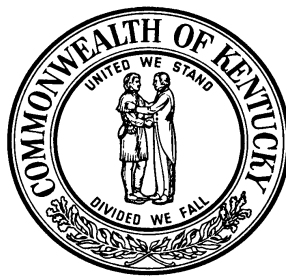


**REPORT OF THE AUDIT OF THE  
KNOX COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2009**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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FRANKFORT, KY 40601-1817  
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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary Finance and Administration Cabinet

Honorable J. M. Hall, Knox County Judge/Executive

Members of the Knox County Fiscal Court

The enclosed report prepared by Simon, Underwood & Associates PSC, Certified Public Accountants and Consultants, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Knox County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements.

We engaged Simon, Underwood & Associates PSC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Simon, Underwood & Associates PSC evaluated the Knox County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure





## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE KNOX COUNTY FISCAL COURT**

**June 30, 2009**

Simon, Underwood & Associates PSC has completed the audit of the Knox County Fiscal Court for fiscal year ended June 30, 2009. The county has not recorded all general infrastructure assets of the Knox County Hospital in governmental activities, and accordingly, has not recorded depreciation expense on those assets. Therefore, we have issued a qualified opinion on the governmental activities, and an unqualified opinion on the business-type activities, each major fund, and aggregate remaining fund information.

#### **Financial Condition:**

The fiscal court had net assets of \$(247,300) as of June 30, 2009. The fiscal court had unrestricted net assets of \$5,050,313 in its governmental activities as of June 30, 2009, with total net assets of \$(281,893). In its business-type activities, total net cash and cash equivalents were \$23,274 with total net assets of \$34,593. The fiscal court had total debt principal as of June 30, 2009 of \$19,195,603 with \$466,382 due within the next year.

#### **Deposits:**

The fiscal court's deposits as of August 31, 2008, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$689,317

#### **Report Comments:**

2009-01	The County Should Maintain Proper Records For the Public Properties Corporation Fund And For The Hospital General Obligation Bond Fund
2009-02	The County Did Not Pay Invoices Timely And Encumbrances Were Not Reported Properly
2009-03	\$6,053 Of Credit Card Expenditures Could Not Be Appropriately Validated And Were Not Properly Documented
2009-04	The County Should Maintain Complete And Accurate Capital Asset Schedules To Comply With GASB 34 Requirements
2009-05	The Jail Should Improve Their Internal Control Procedures
2009-06	Vacation Leave Should Not Be Accrued For Employees
2009-07	The County Should Ensure That The Same Level Of Health Insurance Benefits Are Provided To All County Employees As Stated In Kentucky Attorney General Opinion (OAG) 94-15
2009-08	The County Judge/Executive Or A Designated Person Should Keep And Maintain Required Records
2009-09	The Fiscal Court Minutes Should Be Complete, Adequately Maintained, And Filed In The Proper Location
2009-10	The County Should Incorporate Any Future Knox County Hospital Bond Default Obligations In Their Budget
2009-11	The County Should Monitor Bonding Requirements For All Elected And Appointed Officials
2009-12	The County Failed To Monitor Federal Grant Funds



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*Simon,  
Underwood &  
Associates* PSC

Certified Public Accountants and Consultants

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable J. M. Hall, Knox County Judge/Executive  
Members of the Knox County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Knox County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Knox County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Knox County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The county has not recorded all general infrastructure assets of the Knox County Hospital in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those general infrastructure assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, except for the effects of not recording all general infrastructure assets in governmental activities as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Knox County, Kentucky, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

To the People of Kentucky  
 Honorable Steven L. Beshear, Governor  
 Jonathan Miller, Secretary  
 Finance and Administration Cabinet  
 Honorable J. M. Hall, Knox County Judge/Executive  
 Members of the Knox County Fiscal Court

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statement but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Knox County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated June 21, 2010, on our consideration of Knox County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

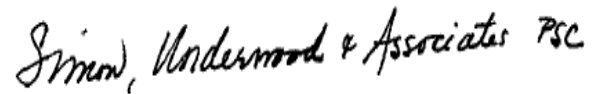
Based upon the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- 2009-01 The County Should Maintain Proper Records For the Public Properties Corporation Fund And For The Hospital General Obligation Bond Fund
- 2009-02 The County Did Not Pay Invoices Timely And Encumbrances Were Not Reported Properly
- 2009-03 \$6,053 Of Credit Card Expenditures Could Not Be Appropriately Validated And Were Not Properly Documented
- 2009-04 The County Should Maintain Complete And Accurate Capital Asset Schedules To Comply With GASB 34 Requirements
- 2009-05 The Jail Should Improve Their Internal Control Procedures
- 2009-06 Vacation Leave Should Not Be Accrued For Employees
- 2009-07 The County Should Ensure That The Same Level Of Health Insurance Benefits Are Provided To All County Employees As Stated In Kentucky Attorney General Opinion (OAG) 94-15
- 2009-08 The County Judge/Executive Or A Designated Person Should Keep And Maintain Required Records
- 2009-09 The Fiscal Court Minutes Should Be Complete, Adequately Maintained, And Filed In The Proper Location

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable J. M. Hall, Knox County Judge/Executive  
Members of the Knox County Fiscal Court

- 2009-10    The County Should Incorporate Any Future Knox County Hospital Bond Default Obligations In Their Budget
- 2009-11    The County Should Monitor Bonding Requirements For All Elected And Appointed Officials
- 2009-12    The County Failed To Monitor Federal Grant Funds

Respectfully submitted,

A handwritten signature in black ink that reads "Simon, Underwood & Associates PSC". The signature is written in a cursive, flowing style.

Simon, Underwood & Associates PSC

June 21, 2010

KNOX COUNTY OFFICIALS

For The Year Ended June 30, 2009

**Fiscal Court Members:**

J.M. Hall	County Judge/Executive
Carson I. Gilbert	Magistrate
Terry Brown	Magistrate
Guillio J. Cima	Magistrate
Doyle Gibson	Magistrate
Jerry Hamilton	Magistrate

**Other Elected Officials:**

Charley G. Dixon	County Attorney
Larry D. Hammons	Jailer
Mike Corey	County Clerk
Greg Helton	Circuit Court Clerk
John Pickard	Sheriff
Bill Oxendine	Property Valuation Administrator
Mike Blevins	Coroner

**Appointed Personnel:**

Jim Tye	Deputy County Judge/Executive
Darren West	County Treasurer
Wayne Willis	Occupational Tax Administrator
Tammy Mays	Finance Officer

**KNOX COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2009**



**KNOX COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2009**

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 6,230,603	\$ 23,274	\$ 6,253,877
Due from Jail Fund		11,319	11,319
Total Current Assets	6,230,603	34,593	6,265,196
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	1,329,145		1,329,145
Construction in Progress	26,591		26,591
Buildings	4,515,576		4,515,576
Other Equipment	1,170,495		1,170,495
Vehicles and Equipment	445,808		445,808
Infrastructure Assets - Net of Depreciation	5,207,630		5,207,630
Total Noncurrent Assets	12,695,245		12,695,245
Total Assets	18,925,848	34,593	18,960,441
LIABILITIES			
Current Liabilities:			
Due to Jail Canteen Fund	11,319		11,319
Due to Jail Inmate Fund	819		819
Financing Obligations Payable	111,382		111,382
Bonds Payable	355,000		355,000
Total Current Liabilities	478,520		478,520
Noncurrent Liabilities:			
Financing Obligations Payable	434,221		434,221
Bonds Payable	18,295,000		18,295,000
Total Noncurrent Liabilities	18,729,221		18,729,221
Total Liabilities	19,207,741		19,207,741
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	(6,500,358)		(6,500,358)
Restricted For:			
Debt Service	1,168,152		1,168,152
Unrestricted	5,050,313	34,593	5,084,906
Total Net Assets	\$ (281,893)	\$ 34,593	\$ (247,300)

The accompanying notes are an integral part of the financial statements.

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**KNOX COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2009**

**KNOX COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues Received</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>Primary Government:</b>				
Governmental Activities:				
General Government	2,544,382	\$ 178,570	\$ 1,208,426	
Protection to Persons and Property	2,091,759	30,912	568,826	114,303
General Health and Sanitation	92,395	395,260		750,300
Social Services	94,556			
Recreation and Culture	15,906			
Roads	1,148,742		1,771,591	
Debt Service	1,108,167			
Capital Projects	274,621			
Total Governmental Activities	7,370,528	604,742	3,548,843	864,603
Business-type Activities:				
Jail Canteen	19,664	34,335		
Total Business-type Activities	19,664	34,335		
Total Primary Government	\$ 7,390,192	\$ 639,077	\$ 3,548,843	\$ 864,603
<b>General Revenues:</b>				
Taxes:				
Real and Personal Property Taxes				
Motor Vehicle Taxes				
Occupational Taxes				
Other Taxes				
Excess Fees				
Licenses and Permits				
Miscellaneous Revenues				
Total General Revenues				
Change in Net Assets				
Net Assets - Beginning				
Net Assets - Ending				

The accompanying notes are an integral part of the financial statements.

**KNOX COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2009**  
**(Continued)**

<b>Net (Expenses) Revenues and Changes in Net Assets</b>		
<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>
\$ (1,157,386)	\$	\$ (1,157,386)
(1,377,718)		(1,377,718)
1,053,165		1,053,165
(94,556)		(94,556)
(15,906)		(15,906)
622,849		622,849
(1,108,167)		(1,108,167)
(274,621)		(274,621)
(2,352,340)		(2,352,340)
	14,671	14,671
	14,671	14,671
\$ (2,352,340)	\$ 14,671	\$ (2,337,669)
910,633		910,633
234,078		234,078
2,725,023		2,725,023
609,937		609,937
288,602		288,602
136,171		136,171
382,256		382,256
5,286,700		5,286,700
2,934,360	14,671	2,949,031
(3,216,253)	19,922	(3,196,331)
\$ (281,893)	\$ 34,593	\$ (247,300)

The accompanying notes are an integral part of the financial statements.

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**KNOX COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2009**

**KNOX COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2009**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Local Government Economic Assistance Fund</b>	<b>Occupational License Fund</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 2,273,176	\$ 786,654	\$ 251,551	\$ 1,235,129	\$ 231,800
Due From LGEA Fund			43,786		
Total Assets	<u>2,273,176</u>	<u>786,654</u>	<u>295,337</u>	<u>1,235,129</u>	<u>231,800</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Due To Jail Fund				43,786	
Due To Jail Canteen Fund			11,319		
Due To Jail Inmate Fund			819		
Total Liabilities			<u>12,138</u>	<u>43,786</u>	
<b>FUND BALANCES</b>					
Reserved for:					
Encumbrances	5,319	166,380	8,085		
Unreserved:					
General Fund	2,267,857				
Special Revenue Funds		620,274	275,114	1,191,343	231,800
Debt Service Funds					
Total Fund Balances	<u>2,273,176</u>	<u>786,654</u>	<u>283,199</u>	<u>1,191,343</u>	<u>231,800</u>
Total Liabilities and Fund Balances	<u>\$ 2,273,176</u>	<u>\$ 786,654</u>	<u>\$ 295,337</u>	<u>\$ 1,235,129</u>	<u>\$ 231,800</u>

The accompanying notes are an integral part of the financial statements.

**KNOX COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**June 30, 2009**  
**(Continued)**

<b>Knox County</b>		
<b>General</b>		
<b>Obligation</b>	<b>Non-</b>	<b>Total</b>
<b>Refunding</b>	<b>Major</b>	
<b>Bond</b>	<b>Governmental</b>	<b>Governmental</b>
<b>Fund</b>	<b>Funds</b>	<b>Funds</b>
\$ 840,131	\$ 612,162	\$ 6,230,603
		43,786
<u>840,131</u>	<u>612,162</u>	<u>6,274,389</u>
		43,786
		11,319
		819
		<u>55,924</u>
	294	180,078
		2,267,857
	283,847	2,602,378
<u>840,131</u>	<u>328,021</u>	<u>1,168,152</u>
<u>840,131</u>	<u>612,162</u>	<u>6,218,465</u>
<u>\$ 840,131</u>	<u>\$ 612,162</u>	<u>\$ 6,274,389</u>

**Reconciliation Of The Balance Sheet - Governmental Funds To The Statement Of Net Assets:**

Total Fund Balances	\$ 6,218,465
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Governmental Funds.	18,552,000
Accumulated Depreciation	(5,856,755)
Proceeds From Debt Provided to outside Entities Is Considered an	
Expenditure to Governmental Funds, While Payment on Receivables	
Provide Current Financial Resources to Governmental Funds.	
These Transactions Have No Effect On Net Assets.	
Short-term and Long-term Debt Is Not Due and Payable in the Current Period and,	
Therefore, Is Not Reported in the Governmental Funds.	
Bonded Debt Principal	(18,650,000)
Financing Obligations Principal	<u>(545,603)</u>
Net Assets Of Governmental Activities	<u>\$ (281,893)</u>

The accompanying notes are an integral part of the financial statements.

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**KNOX COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

**KNOX COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Local Government Economic Assistance Fund</b>	<b>Occupational License Fund</b>
<b>REVENUES</b>					
Taxes	\$ 1,483,952	\$	\$	\$	\$ 2,623,784
In Lieu Tax Payments	97	309			
Excess Fees	288,602				
Licenses and Permits	136,171				
Intergovernmental	648,877	1,390,953	164,947	2,207,088	
Charges for Services	895				
Miscellaneous	118,886	1,451	67,685		
Interest	29,160	9,182	2,106	30,916	7,954
Total Revenues	<u>2,706,640</u>	<u>1,401,895</u>	<u>234,738</u>	<u>2,238,004</u>	<u>2,631,738</u>
<b>EXPENDITURES</b>					
General Government	1,137,227				801,444
Protection to Persons and Property	25,826		1,215,626	346,676	
General Health and Sanitation	84,457				
Social Services	1,000			267	
Recreation and Culture	13,534				
Roads		1,996,591			
Debt Service	144,519	35,959	37,362	161,423	
Capital Projects	30			274,591	
Administration	575,517	165,883	139,311		
Total Expenditures	<u>1,982,110</u>	<u>2,198,433</u>	<u>1,392,299</u>	<u>782,957</u>	<u>801,444</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>724,530</u>	<u>(796,538)</u>	<u>(1,157,561)</u>	<u>1,455,047</u>	<u>1,830,294</u>
<b>Other Financing Sources (Uses)</b>					
Transfers From Other Funds	1,901,820	1,200,000	995,000		
Transfers To Other Funds	(1,155,473)	(65,000)		(1,200,000)	(1,835,994)
Total Other Financing Sources (Uses)	<u>746,347</u>	<u>1,135,000</u>	<u>995,000</u>	<u>(1,200,000)</u>	<u>(1,835,994)</u>
Net Change in Fund Balances	1,470,877	338,462	(162,561)	255,047	(5,700)
Fund Balances - Beginning	<u>802,299</u>	<u>448,192</u>	<u>445,760</u>	<u>936,296</u>	<u>237,500</u>
Fund Balances - Ending	<u>\$ 2,273,176</u>	<u>\$ 786,654</u>	<u>\$ 283,199</u>	<u>\$ 1,191,343</u>	<u>\$ 231,800</u>

The accompanying notes are an integral part of the financial statements.

**KNOX COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2009**  
**(Continued)**

<b>Knox County</b>		
<b>General</b>		
<b>Obligation</b>	<b>Non-</b>	<b>Total</b>
<b>Refunding</b>	<b>Major</b>	<b>Governmental</b>
<b>Bond</b>	<b>Governmental</b>	<b>Governmental</b>
<b>Fund</b>	<b>Funds</b>	<b>Funds</b>
\$	\$ 371,529	\$ 4,479,265
		406
		288,602
		136,171
395,260	292,873	5,099,998
		895
	240	188,262
16,949	15,022	111,289
<u>412,209</u>	<u>679,664</u>	<u>10,304,888</u>
	130,624	2,069,295
	281,012	1,869,140
		84,457
	93,289	94,556
		13,534
		1,996,591
924,349	249,930	1,553,542
		274,621
	36,543	917,254
<u>924,349</u>	<u>791,398</u>	<u>8,872,990</u>
<u>(512,140)</u>	<u>(111,734)</u>	<u>1,431,898</u>
	160,473	4,257,293
	(826)	(4,257,293)
	<u>159,647</u>	
(512,140)	47,913	1,431,898
<u>1,352,271</u>	<u>564,249</u>	<u>4,786,567</u>
<u>\$ 840,131</u>	<u>\$ 612,162</u>	<u>\$ 6,218,465</u>

The accompanying notes are an integral part of the financial statements.

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**KNOX COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**



**KNOX COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

Net Change in Fund Balances - Total Governmental Funds	\$ 1,431,898
--	--------------

Amounts Reported for Governmental Activities in the Statement of  
Activities Are Different Because:

Governmental Funds Report Capital Outlays as Expenditures. However,  
in the Statement of Activities the Cost of Those Assets Is Allocated Over  
Their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay	1,562,043
Depreciation Expense	(506,702)

The Issuance of Short-term Debt (e.g. Financing Obligations) Provides  
Current Financial Resources to Governmental Funds, While Repayment  
of Principal on Short-term and Long-term Debt Consumes the Current  
Financial Resources of Governmental Funds. These Transactions, However,  
Have No Effect on Net Assets.

Bonded Debt Principal Payment	110,000
Financing Obligations Principal Payments	<u>337,121</u>

Change in Net Assets of Governmental Activities	<u><u>\$ 2,934,360</u></u>
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**KNOX COUNTY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2009**



**KNOX COUNTY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2009**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Assets</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 23,274
Due from Jail Fund	11,319
Total Current Assets	<u>34,593</u>
 Total Assets	 <u>34,593</u>
 <b>Net Assets</b>	
Invested in Capital Assets, Unrestricted	 <u>34,593</u>
 Total Net Assets	 <u><u>\$ 34,593</u></u>

The accompanying notes are an integral part of the financial statements.

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**KNOX COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**



**KNOX COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Operating Revenues</b>	
Canteen Receipts	\$ 34,335
Total Operating Revenues	<u>34,335</u>
<b>Operating Expenses</b>	
Cost of Sales	18,891
Educational and Recreational	721
Other	<u>52</u>
Total Operating Expenses	<u>19,664</u>
Operating Income (Loss)	<u>14,671</u>
Change In Net Assets	14,671
Total Net Assets - Beginning	<u>19,922</u>
Total Net Assets - Ending	<u><u>\$ 34,593</u></u>

The accompanying notes are an integral part of the financial statements.

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**KNOX COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**



**KNOX COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Cash Flows From Operating Activities</b>	
Receipts From Customers	\$ 34,335
Cost of Sales	(18,891)
Educational and Recreational	(721)
Other	(52)
Net Cash Provided By Operating Activities	<u>14,671</u>
Net Increase in Cash and Cash Equivalents	14,671
Cash and Cash Equivalents - July 1, 2008	<u>19,922</u>
Cash and Cash Equivalents - June 30, 2009	<u><u>\$ 34,593</u></u>
 <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating Income	<u>\$ 14,671</u>
Net Cash Provided By Operating Activities	<u><u>\$ 14,671</u></u>

The accompanying notes are an integral part of the financial statements.

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**KNOX COUNTY**  
**STATEMENT OF FIDUCIARY NET ASSETS – MODIFIED CASH BASIS**

**June 30, 2009**



**KNOX COUNTY**  
**STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2009**

	<u><b>Agency Fund</b></u>	<u><b>Jail Inmate Fund</b></u>
<b>Assets</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 1,530	
Due From Jail Fund	<u>820</u>	
Total Assets	<u>2,350</u>	
<b>Liabilities</b>		
Amounts Held In Custody For Others	<u>2,350</u>	
Total Liabilities	<u>2,350</u>	
<b>Net Assets</b>		
Total Net Assets	<u><u>\$ 0</u></u>	

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

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**KNOX COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Receivables are recognized on the Statement of Net Assets, but receivables are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Knox County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The county has no discretely presented component units.

**Blended Component Units**

**Knox County Municipal Public Properties Corporation**

The Knox County Fiscal Court appoints a voting majority of the Knox County Municipal Public Properties Corporation's (PPC) governing board and has the ability to impose its will on the governing board. In addition, fiscal court is financially accountable and legally obligated for the debt of the Knox County Municipal Public Properties Corporation. Financial information for the PPC is blended within Knox County's financial statements. All activities of the PPC are accounted for within a non-major (debt service) fund.

**KNOX COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**B. Reporting Entity (Continued)**

Blended Component Units

Knox County Hospital Corporation

The Knox County Fiscal Court appoints all members of the governing board of the Knox County Hospital Corporation. The fiscal court, through the Knox County Hospital Corporation, own the building and assets of the hospital, incurred debt on its behalf, and is responsible for the oversight of the operations and management agreement of the hospital. In addition, fiscal court is financially responsible and legally obligated for the debt of the Knox County Hospital Corporation. As of June 30, 2009, no financial statements are maintained for the Knox County Hospital Corporation.

**C. Knox County Elected Official**

Kentucky law provides for election of the officials below from the geographic area constituting Knox County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

Additional Knox County Elected Officials

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

**KNOX COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009  
(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3<sup>rd</sup> Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

**Governmental Funds**

The primary government reports the following major governmental funds:

**General Fund** - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

**Road Fund** - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the Fiscal Court to maintain these revenues and expenditures separately from the General Fund.

**Jail Fund** - The primary purpose of this fund is to account for the Jail expenditures of the Fiscal Court. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the Fiscal Court to maintain these revenues and expenditures separately from the General Fund.

**Local Government Economic Assistance Fund** - The primary purpose of this fund is to account for funds that must be spent for public safety, environmental protection, public transportation, health, recreation, and social services. The Department for Local Government requires the Fiscal Court to maintain these revenues and expenditures separately from the General Fund.

**KNOX COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009  
(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds (Continued)**

Occupational License Fund - The primary purpose of this fund is to account for receipts and disbursements related to the county's occupational tax collections. The Department for Local Government requires the Fiscal Court to maintain these revenues and expenditures separately from the General Fund.

Knox County General Obligation Refunding Bond Fund - The primary purpose of this fund is to account for debt service requirements of the obligation bonds of the Knox County Hospital. The bonds were issued to build the new hospital. The Department for Local Government does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major funds: Emergency 911 Fund, Federal Programs Fund, Knox County Hospital Sinking Fund, SEKRB Park Fund, County Attorney Drug Free Communities Fund and Knox County Public Properties Corporation Bond Fund.

**Special Revenue Funds:**

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Occupational License Fund, Emergency 911 Fund, Federal Programs Fund, Knox County Hospital Sinking Fund, SEKRB Park Fund, and County Attorney Drug Free Communities Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

**Debt Service Fund:**

The Knox County General Obligation Refunding Bond Fund and the Knox County Public Properties Corporation Bond Fund are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt and interest.

**Proprietary Fund**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise fund is charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise fund include cost of sales and services and administrative expenses. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued November 30, 1989, unless the Governmental Accounting Standards Board (GASB) adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund – The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

**KNOX COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Fiduciary Fund**

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Inmate Trust Fund for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Jail Inmate Fund - This fund accounts for funds received from inmates.

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 10,000	10-60
Buildings and Building Improvements	25,000	10-75
Machinery and Equipment	5,000	3-25
Vehicles	5,000	5-10
Infrastructure	10,000	10-50

**KNOX COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009  
(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**G. Long-term Obligations**

In the government-wide financial statements and proprietary funds in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**J. Related Organizations**

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. The primary government's accountability for related organizations does not extend beyond making appointments. Based on these criteria, the Knox County Utility Commission and the Knox County Ambulance Service are considered related organizations of Knox County Fiscal Court.

**KNOX COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 2. Deposits**

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2009, the County's deposits were covered by FDIC insurance or pledged securities and a properly executed collateral security agreement. However, as of August 31, 2008, public funds were exposed to custodial risk because the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement as follows:

- Uncollateralized and Uninsured                      \$689,317

**KNOX COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2009 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 1,116,145	\$ 213,000	\$	\$ 1,329,145
Construction In Progress		26,591		26,591
Total Capital Assets Not Being Depreciated	1,116,145	239,591		1,355,736
Capital Assets, Being Depreciated:				
Buildings	8,543,000	27,950		8,570,950
Furniture and Equipment	1,759,085	210,970		1,970,055
Vehicles	883,857			883,857
Infrastructure	4,687,870	1,083,532		5,771,402
Total Capital Assets Being Depreciated	15,873,812	1,322,452		17,196,264
Less Accumulated Depreciation For:				
Buildings	(3,948,881)	(106,493)		(4,055,374)
Furniture and Equipment	(662,157)	(137,403)		(799,560)
Vehicles	(356,294)	(81,755)		(438,049)
Infrastructure	(382,721)	(181,051)		(563,772)
Total Accumulated Depreciation	(5,350,053)	(506,702)		(5,856,755)
Total Capital Assets, Being Depreciated, Net	10,523,759	815,750		11,339,509
Governmental Activities Capital Assets, Net	\$11,639,904	\$ 1,055,341	\$ 0	\$12,695,245

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 112,570
Protection to Persons and Property	81,461
General Health and Sanitation	34,529
Recreation and Culture	2,372
Roads	275,770
Total Depreciation Expense - Governmental Activities	<u>\$ 506,702</u>



**KNOX COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 4. Long-term Debt**

**A. First Mortgage Revenue Refunding Bonds, Series 1997**

On December 17, 1997, the Knox County Public Properties Corporation issued \$2,555,000 of First Mortgage Revenue Bonds for courthouse improvements and the construction of the courthouse annex. The 1997 series bonds were issued at various interest rates from 4.25% through 5.20%. The final maturity date of the 1997 series bonds is September 1, 2022. Total bonds outstanding as of June 30, 2009 totaled \$1,890,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 95,000	\$ 94,774
2011	105,000	89,824
2012	100,000	84,725
2013	110,000	79,475
2014	115,000	73,793
2015-2019	675,000	270,730
2020-2024	690,000	73,840
Totals	<u>\$ 1,890,000</u>	<u>\$ 767,161</u>

**B. Taxable General Obligation Refunding Bonds, Series 2006**

The Fiscal Court issued obligations, dated December 28, 2006 and payable in 28 annual installments beginning December 1, 2009 and semi-annual interest payments on the first of June and December at an interest rate of 4.90%.

The Fiscal Court issued the Bonds, Series 2006 to defease and refund the General Obligation Bonds, Series 2004 due June 1, 2007 through 2014, General Obligation Bonds, Series 2004B due June 1, 2007 through 2015, a portion of the General Obligation Bonds, Series 2005 due June 1, 2007 through 2015; and to pay off a KADD lease. All of the instruments related to the Knox County Hospital. The refunding of the bonds has been accomplished pursuant to the Escrow Agreement by and between the County and Huntington Bank (successor to Central Bank & Trust Co.), the paying agent for the bonds (the "Escrow Agent") by depositing with the Escrow Agent a sum of initial cash and certain noncallable direct obligations of the United States Treasury (collectively, the "Government Obligations"). The funds needed to make the initial cash deposit and to purchase the Government Obligations have been provided from the proceeds of the Bonds, Series 2006.

The Government Obligations purchased and deposited with the Escrow Agent bear interest at such rates and will be scheduled to mature at such times and in such amounts so that, when paid according to their respective terms, sufficient moneys together with any amounts of cash then on deposit with the Escrow Agent, will be available to fully provide for: (i) the timely payment of interest on the bonds accruing from December 28, 2006 to and including the earliest date on which such bonds can be redeemed prior to maturity; and (ii) to redeem on December 1, 2014, December 1, 2015 and June 1, 2015, respectively, the bonds which as of that date have not been redeemed, retired or otherwise paid.

**KNOX COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**B. Taxable General Obligation Refunding Bonds, Series 2006 (Continued)**

All moneys and Government Obligations on deposit with the Escrow Agent, including interest to be earned thereon, are pledged solely and irrevocably for the benefit of the holders of the Series 2004, Series 2004B and Series 2005 bonds. As of June 30, 2009, bonds outstanding were \$15,815,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 240,000	\$ 917,449
2011	250,000	903,361
2012	265,000	888,555
2013	280,000	872,886
2014	300,000	856,136
2015-2019	1,775,000	3,991,406
2020-2024	2,340,000	3,398,950
2025-2029	3,110,000	2,607,824
2030-2034	4,140,000	1,551,000
2035-2036	3,115,000	281,559
Totals	<u>\$ 15,815,000</u>	<u>\$ 16,269,126</u>

**KNOX COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**C. General Obligation Refunding Bonds, Series 2005 Non-Refunded Portion**

On December 1, 2005, the Knox County Fiscal Court issued \$4,250,000 of General Obligation Refunding Bonds for the Knox County Hospital. On December 28, 2006, the Fiscal Court issued General Obligation Refunding Bonds, Series 2006 which defeased the remainder of the outstanding Series 2005 bonds at that date with the exception of \$985,000. The non-refunded portion of the Series 2005 Bonds has interest rates from 2.80% through 4.50%. The final maturity date of the Series 2005 Bonds is December 1, 2035. Total bonds outstanding as of June 30, 2009 totaled \$945,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 20,000	\$ 40,030
2011	20,000	39,385
2012	15,000	38,796
2013	20,000	38,178
2014	20,000	37,448
2015-2019	110,000	175,295
2020-2024	170,000	146,793
2025-2029	195,000	107,016
2030-2034	260,000	56,688
2035-2036	115,000	5,288
Totals	<u>\$ 945,000</u>	<u>\$ 684,917</u>

**KNOX COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**D. Jail – Long Term Participation Agreement**

The Kentucky Local Correctional Facilities Construction Authority (KLCFCA), an independent corporation agency and instrumentality of Kentucky, issued revenue bonds in the amount of \$276,310 on September 29, 2004 for the purpose of constructing a jail facility. On October 1, 2004, the fiscal court entered into a lease and participation agreement with KLCFCA for \$276,310 principal plus interest of 6.34% on the issue. The principal amount outstanding as of June 30, 2009 was \$185,603. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 26,382	\$ 10,931
2011	28,054	9,205
2012	29,833	7,370
2013	31,724	5,419
2014	33,736	3,344
2015	35,874	1,138
Totals	<u>\$ 185,603</u>	<u>\$ 37,407</u>

**E. Kentucky Area Development District – Road Department Equipment**

On January 19, 2005, the Fiscal Court entered into a capital lease agreement with Kentucky Area Development District for the purpose of purchasing road department equipment. The principal of the lease was \$485,000 with repayment to be made over a five year period. The county is to pay semi-annual installments due in August and February in accordance with a schedule to complete the contract. The lease was issued at various interest rates from 3.30% through 4.40%. The principal amount outstanding as of June 30, 2009 was \$85,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 85,000	\$ 4,410
Totals	<u>\$ 85,000</u>	<u>\$ 4,410</u>

**KNOX COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**F. Kentucky Area Development District – Vehicles**

On September 1, 2005, the Fiscal Court entered into a capital lease agreement with Kentucky Area Development District for the purpose of purchasing vehicles. The principal of the lease was \$495,000 with repayment to be made over an eleven year period. The county is to pay semi-annual installments due in January and July in accordance with a schedule to complete the contract. The lease was issued at various interest rates from 3.40% through 4.50%. The principal amount outstanding as of June 30, 2009 was \$275,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ -	\$ 6,131
2011	60,000	11,063
2012	60,000	8,588
2013	65,000	5,931
2014	30,000	3,875
2015-2016	60,000	3,450
Totals	<u>\$ 275,000</u>	<u>\$ 39,038</u>

**G. Sheriff's Vehicles**

On November 1, 2006, the Fiscal Court entered into an agreement with First Capital Equipment Leasing Corp. in the amount of \$270,000 at 4.470% interest for a period of 52 months. The financing obligation was for the funding of ten sheriff's vehicles. The principal balance of the obligation as of June 30, 2009 was \$0.

**H. Excavator**

On July 10, 2006, the Fiscal Court entered into a lease agreement with Whayne Supply Company in the amount of \$118,881 at a variable rate of interest for a period of 36 months. The financing obligation was for the funding of a Caterpillar excavator. The principal balance of the obligation as of June 30, 2009 was \$0.

**KNOX COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**I. Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 16,780,000	\$	\$ 20,000	\$ 16,760,000	\$ 260,000
Revenue Bonds	1,980,000		90,000	1,890,000	95,000
Financing Obligations	882,724		337,121	545,603	111,382
Governmental Activities					
Long-term Liabilities	<u>\$ 19,642,724</u>	<u>\$ 0</u>	<u>\$ 447,121</u>	<u>\$ 19,195,603</u>	<u>\$ 466,382</u>

**Note 5. Interest on Long-term Debt and Financing Obligations**

Debt Service on the Statement of Activities includes \$42,143 in interest on financing obligations and \$1,064,279 in interest on bonds. Operating lease payments are also included in debt service.

**Note 6. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent.

The county's contribution for FY 2007 was \$265,426, FY 2008 was \$256,018, and FY 2009 was \$198,007.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**KNOX COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 7. Insurance**

For the fiscal year ended June 30, 2009, Knox County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 8. Subsequent Events**

At June 30, 2009, Pacer, the management corporation of the Knox County Hospital, had defaulted on the General Obligation Refunding Bonds, Series 2006. The debt payment was made from funds held in debt reserve by the Trustee. In November 2009, Cumberland Clinic LLC bought out the management contract of Pacer, which included taking over the bond payments and restoring the debt reserve fund.

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**KNOX COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**REQUIRED SUPPLEMENTARY INFORMATION – Modified Cash Basis**

**For The Year Ended June 30, 2009**



**KNOX COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**Required Supplementary Information**  
**Modified Cash Basis**

**For The Year Ended June 30, 2009**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 1,405,000	\$ 1,405,000	\$ 1,483,952	\$ 78,952
In Lieu Tax Payments			97	97
Excess Fees	250,000	250,000	288,602	38,602
Licenses and Permits	135,000	135,000	136,171	1,171
Intergovernmental Revenue	299,400	299,400	648,877	349,477
Charges for Services			895	895
Miscellaneous	116,600	116,600	118,886	2,286
Interest	9,000	9,000	29,160	20,160
Total Revenues	<u>2,215,000</u>	<u>2,215,000</u>	<u>2,706,640</u>	<u>491,640</u>
<b>EXPENDITURES</b>				
General Government	1,603,862	1,672,848	1,137,227	535,621
Protection to Persons and Property	31,000	35,000	25,826	9,174
General Health and Sanitation	162,500	171,200	84,457	86,743
Social Services	10,000	10,000	1,000	9,000
Recreation and Culture	18,000	18,800	13,534	5,266
Debt Service	75,000	150,000	144,519	5,481
Capital Projects		30	30	
Administration	1,699,638	1,084,297	575,517	508,780
Total Expenditures	<u>3,600,000</u>	<u>3,142,175</u>	<u>1,982,110</u>	<u>1,160,065</u>
Excess of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,385,000)</u>	<u>(927,175)</u>	<u>724,530</u>	<u>1,651,705</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	600,000	600,000	1,901,820	1,301,820
Transfers To Other Funds			(1,155,473)	(1,155,473)
Total Other Financing Sources (Uses)	<u>600,000</u>	<u>600,000</u>	<u>746,347</u>	<u>146,347</u>
Net Changes in Fund Balance	(785,000)	(327,175)	1,470,877	1,798,052
Fund Balance - Beginning	<u>785,000</u>	<u>802,149</u>	<u>802,299</u>	<u>150</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 474,974</u>	<u>\$ 2,273,176</u>	<u>\$ 1,798,202</u>

**KNOX COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**Required Supplementary Information**  
**Modified Cash Basis**  
**For The Year Ended June 30, 2009**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts, (Budgetary Basis)</b>	<b>Final Budget Positive (Negative)</b>
<b>REVENUES</b>				
In Lieu Tax Payments	\$	\$	\$ 309	\$ 309
Intergovernmental Revenue	1,390,000	1,390,000	1,390,953	953
Miscellaneous	3,000	3,000	1,451	(1,549)
Interest	4,000	4,000	9,182	5,182
Total Revenues	<u>1,397,000</u>	<u>1,397,000</u>	<u>1,401,895</u>	<u>4,895</u>
<b>EXPENDITURES</b>				
Roads	2,432,000	2,895,700	1,996,591	899,109
Debt Service			35,959	(35,959)
Administration	457,500	237,992	165,883	72,109
Total Expenditures	<u>2,889,500</u>	<u>3,133,692</u>	<u>2,198,433</u>	<u>935,259</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,492,500)</u>	<u>(1,736,692)</u>	<u>(796,538)</u>	<u>940,154</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	1,159,500	1,159,500	1,200,000	40,500
Transfers To Other Funds			(65,000)	(65,000)
Total Other Financing Sources (Uses)	<u>1,159,500</u>	<u>1,159,500</u>	<u>1,135,000</u>	<u>(24,500)</u>
Net Changes in Fund Balance	(333,000)	(577,192)	338,462	915,654
Fund Balance - Beginning	<u>333,000</u>	<u>448,192</u>	<u>448,192</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (129,000)</u>	<u>\$ 786,654</u>	<u>\$ 915,654</u>

**KNOX COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**Required Supplementary Information**  
**Modified Cash Basis**  
**For The Year Ended June 30, 2009**  
**(Continued)**

<b>JAIL FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 103,000	\$ 103,000	\$ 119,447	\$ 16,447
Miscellaneous	5,000	5,000	67,685	62,685
Interest	1,000	1,000	2,106	1,106
Total Revenues	109,000	109,000	189,238	80,238
<b>EXPENDITURES</b>				
Protection to Persons and Property	1,087,500	1,323,070	1,213,679	109,391
Debt Service	37,000	37,400	37,362	38
Administration	480,500	255,035	139,011	116,024
Total Expenditures	1,605,000	1,615,505	1,390,052	225,453
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(1,496,000)	(1,506,505)	(1,200,814)	305,691
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In from Other Funds	1,100,000	1,100,000	995,000	(105,000)
Total Other Financing Sources (Uses)	1,100,000	1,100,000	995,000	(105,000)
Net Changes in Fund Balances	(396,000)	(406,505)	(205,814)	200,691
Fund Balances - Beginning	396,000	434,555	434,705	150
Fund Balances - Ending	\$ 0	\$ 28,050	\$ 228,891	\$ 200,841

**KNOX COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**Required Supplementary Information**  
**Modified Cash Basis**  
**For The Year Ended June 30, 2009**  
**(Continued)**

<b>LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 1,495,000	\$ 1,495,000	\$ 2,207,088	\$ 712,088
Interest	15,000	15,000	30,916	15,916
Total Revenues	1,510,000	1,510,000	2,238,004	728,004
<b>EXPENDITURES</b>				
Protection to Persons and Property	62,000	303,000	302,890	110
Social Services		270	267	3
Roads	191,000	191,000		191,000
Debt Service			161,423	(161,423)
Capital Projects	457,000	1,207,000	274,591	932,409
Administration		158,026		158,026
Total Expenditures	710,000	1,859,296	739,171	1,120,125
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	800,000	(349,296)	1,498,833	1,848,129
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers To Other Funds	(800,000)	(800,000)	(1,200,000)	(400,000)
Total Other Financing Sources (Uses)	(800,000)	(800,000)	(1,200,000)	(400,000)
Net Changes in Fund Balances		(1,149,296)	298,833	1,448,129
Fund Balances - Beginning		936,296	936,296	
Fund Balances - Ending	\$ 0	\$ (213,000)	\$ 1,235,129	\$ 1,448,129

**KNOX COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**Required Supplementary Information**  
**Modified Cash Basis**  
**For The Year Ended June 30, 2009**  
**(Continued)**

<b>OCCUPATIONAL LICENSE FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 2,595,000	\$ 2,595,000	\$ 2,623,784	\$ 28,784
Interest	3,000	3,000	7,954	4,954
Total Revenues	2,598,000	2,598,000	2,631,738	33,738
<b>EXPENDITURES</b>				
General Government	748,000	805,446	801,444	4,002
Total Expenditures	748,000	805,446	801,444	4,002
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	1,850,000	1,792,554	1,830,294	37,740
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers To Other Funds	(2,100,000)	(2,100,000)	(1,835,994)	264,006
Total Other Financing Sources (Uses)	(2,100,000)	(2,100,000)	(1,835,994)	264,006
Net Changes in Fund Balance	(250,000)	(307,446)	(5,700)	301,746
Fund Balance - Beginning	250,000	237,446	237,500	54
Fund Balance - Ending	\$ 0	\$ (70,000)	\$ 231,800	\$ 301,800

**KNOX COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2009**

**Note 1. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**Note 2. Reconciliation of Required Supplementary Information to Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.**

**Reconciliation of Jail Fund**

Total Revenues - Budgetary Basis	\$ 189,238	
Revenues Received in Jail Operating Fund	<u>45,500</u>	
Ending Fund Balance per Schedule of Revenues, Expenditures, and Changes in Fund Balances		\$ 234,738
 Total Expenditures - Budgetary Basis	 \$ 1,390,052	
Expenditures Made in Jail Commissary Fund	12,138	
Expenditures Made in Jail Operating Fund	33,895	
Expenditures Made by Jail Fund From LGEA Funds	<u>(43,786)</u>	
Total Expenditures - Modified Cash Basis		1,392,299
 Total Other Financing Sources (Uses) - Budgetary Basis		 995,000
 Beginning Fund Balance - Budgetary Basis	 \$ 434,705	
Beginning Fund Balance in Jail Operating Fund	<u>11,055</u>	
Beginning Fund Balance - Modified Cash Basis		<u>445,760</u>
 Ending Fund Balance per Schedule of Revenues, Expenditures, and Changes in Fund Balances		 <u><u>\$ 283,199</u></u>

**Reconciliation of Local Government Assistance Fund**

Total Expenditures - Budgetary Basis	\$ 739,171	
Expenditures Made By Jail Fund From LGEA Funds	<u>43,786</u>	
Total Expenditures - Modified Cash Basis	<u><u>\$ 782,957</u></u>	
 Ending Fund Balance per Budgetary Schedule	 \$ 1,235,129	
Funds Due To Jail Fund From LGEA Funds	<u>(43,786)</u>	
Ending Fund Balance per Schedule of Revenues, Expenditures, and Changes in Fund Balances	<u><u>\$ 1,191,343</u></u>	



**KNOX COUNTY  
COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Other Supplementary Information**

**June 30, 2009**

**KNOX COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2009**

	<b>Emergency 911 Fund</b>	<b>Federal Programs Fund</b>	<b>Knox County Hospital Sinking Fund</b>	<b>SEKRB Park Fund</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 127,109	\$ 74,253	\$ 380	\$ 77,467
Total Assets	<u>127,109</u>	<u>74,253</u>	<u>380</u>	<u>77,467</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Due To Jail Fund				
Due To Jail Canteen Fund				
Due To Jail Inmate Fund				
Total Liabilities				
<b>FUND BALANCES</b>				
Reserved for:				
Encumbrances	294			
Unreserved:				
Special Revenue Funds	126,815	74,253	380	77,467
Debt Service Funds				
Total Fund Balances	<u>127,109</u>	<u>74,253</u>	<u>380</u>	<u>77,467</u>
Total Liabilities and Fund Balances	<u>\$ 127,109</u>	<u>\$ 74,253</u>	<u>\$ 380</u>	<u>\$ 77,467</u>

The accompanying notes are an integral part of the financial statements.

The accompanying notes are an integral part of the financial statements.

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**KNOX COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2009**

**KNOX COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2009**

	<b>Emergency 911 Fund</b>	<b>Federal Programs Fund</b>	<b>Knox County Hospital Sinking Fund</b>	<b>SEKRB Park Fund</b>
<b>REVENUES</b>				
Taxes	\$ 270,289	\$	\$	\$ 101,240
Intergovernmental		5,811		
Charges for Services				
Miscellaneous	240			
Interest	753			965
Total Revenues	<u>271,282</u>	<u>5,811</u>	<u></u>	<u>102,205</u>
<b>EXPENDITURES</b>				
General Government				130,624
Protection to Persons and Property	281,012			
Social Services				
Debt Service			60,645	
Administration	24,490			
Total Expenditures	<u>305,502</u>	<u></u>	<u>60,645</u>	<u>130,624</u>
Excess (Deficiency) of Revenues Over				
Expenditures Before Other				
Financing Sources	<u>(34,220)</u>	<u>5,811</u>	<u>(60,645)</u>	<u>(28,419)</u>
<b>Other Financing Sources</b>				
Financing Obligation Proceeds				
Transfers from Other Funds	100,000		60,473	
Transfers To Other Funds				
Total Other Financing Sources	<u>100,000</u>	<u></u>	<u>60,473</u>	<u></u>
Net Change in Fund Balances	65,780	5,811	(172)	(28,419)
Fund Balances - Beginning	<u>61,329</u>	<u>68,442</u>	<u>552</u>	<u>105,886</u>
Fund Balances - Ending	<u><u>\$ 127,109</u></u>	<u><u>\$ 74,253</u></u>	<u><u>\$ 380</u></u>	<u><u>\$ 77,467</u></u>

The accompanying notes are an integral part of the financial statements.

**KNOX COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**June 30, 2009**  
**(Continued)**

<b>County Attorney Drug Free Communities Fund</b>	<b>Knox County Public Properties Corporation Bond Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$	\$	\$
108,492	178,570	371,529
		292,873
		240
	13,304	15,022
108,492	191,874	679,664
		130,624
		281,012
93,289		93,289
	189,285	249,930
10,307	1,746	36,543
103,596	191,031	791,398
4,896	843	(111,734)
		160,473
(826)		(826)
(826)		159,647
4,070	843	47,913
862	327,178	564,249
\$ 4,932	\$ 328,021	\$ 612,162

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





*Simon,  
Underwood &  
Associates* PSC

Certified Public Accountants and Consultants

The Honorable J.M. Hall, Knox County Judge/Executive  
Members of the Knox County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Knox County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated June 21, 2010 wherein we issued a qualified opinion on the governmental activities. The governmental activities were qualified due to the county not recording all general infrastructure assets of the Knox County Hospital and accordingly no recording depreciation expense on these assets. Knox County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Knox County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Knox County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Knox County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying comments and recommendations as items 2009-01, 2009-02, 2009-03, 2009-04 and 2009-05 to be significant deficiencies in internal control over financial reporting.

Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above as items 2009-04 and 2009-05 to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Knox County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and are described in the accompanying comments and recommendations as items 2009-06, 2009-07, 2009-08, 2009-09, 2009-10, 2009-11, and 2009-12.

This report is intended solely for the information and use of management, the Knox County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Simon, Underwood & Associates PSC". The signature is written in a cursive, flowing style.

Simon, Underwood & Associates PSC

June 21, 2010

## **COMMENTS AND RECOMMENDATIONS**



**KNOX COUNTY  
COMMENTS AND RECOMMENDATIONS**

**For The Year Ended June 30, 2009**

**INTERNAL CONTROLS - SIGNIFICANT DEFICIENCIES:**

**2009-01 The County Should Maintain Proper Records For The Public Properties Corporation Fund And For The Hospital General Obligation Refunding Bond Fund**

The County should maintain proper records for the Public Properties Corporation (PPC) and the Hospital General Obligation Refunding Bond Fund (Hosp Bonds)– Debt Service Funds. Since the Fiscal Court is financially accountable and legally obligated for the debt of the PPC and Hosp Bonds, they are reported as blended component units of the Fiscal Court. The County receives the bank statements for the PPC and Hosp Bonds, and should maintain a receipts and disbursements ledger, and prepare a financial statement. We recommend the County maintain proper records for the PPC and Hosp Bonds in the future.

*County Judge/Executive's Response: We agree, this issue is in process of being corrected.*

**2009-02 The County Did Not Pay Invoices Timely And Encumbrances Were Not Reported Properly**

During our testing of expenditures, we found that some invoices were not paid timely and encumbrances were not reported properly. Auditors selected sixty-nine (69) invoices for testing totaling \$1,936,269. Of the 69 invoices selected for testing, three (3) invoices totaling \$107,141 were not paid within thirty (30) days. Also, we traced twenty (20) invoices to encumbrances reported on the 4<sup>th</sup> quarter financial statements; eight (8) invoices totaling \$158,548 were improperly excluded from the financial statements.

KRS 65.140 requires any purchaser that receives goods or services to pay for those goods and services within thirty (30) working days of receipt of a vendor's invoice. The Department for Local Government requires financial statements include all purchases encumbered with current year budget funds for accurate accounting. We recommend that the County comply with these requirements by paying invoices timely and properly reporting all encumbrances.

*County Judge/Executive's Response: Please see attached for item one. Item two has been corrected.*

*Auditor's Reply: Supporting documentation provided did not support the invoices being paid timely.*

**KNOX COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**For The Year Ended June 30, 2009**  
**(Continued)**

INTERNAL CONTROLS - SIGNIFICANT DEFICIENCIES: (Continued)

2009-03 \$6,053 Of Credit Card Expenditures Could Not Be Appropriately Validated And Were Not Properly Documented

Auditors chose twelve (12) credit card statements to test for a total of \$19,317 charges. Of the \$19,317 of credit card expenditures tested, only \$13,264 had proper documentation to support the expenditure (leaving \$6,053 without adequate documentation). Several expenditures were for travel, meals, or miscellaneous supplies. Auditor inquired of Finance Officer to see if travel vouchers existed to support expenditures related to meals and travel; we were told there are no such files.

We recommend that the Fiscal Court apply best practices when exercising its fiduciary responsibility to act as agents of the public trust. We also recommend that the Fiscal Court have more control of credit card usage and require documentation of who used the card and for what reason. Strong internal controls dictate that there be procedures in place that reconcile monthly credit card receipts submitted by employees to the credit card statements. The following procedures should be implemented immediately to strengthen internal controls over credit card use:

- All receipts for credit card transactions should be attached to the statement and filed for preparation of the claims list.
- Once the statement is received and all receipts related to that statement are attached to the credit card statement, a detailed list of transactions should be included on the claims list presented to the Fiscal Court for approval.
- Travel vouchers should be maintained to support meal, hotel, and other travel-related expenditures. All receipts for such expenses should be attached to the vouchers with the signature of the employee to substantiate and provide adequate documentation.

*County Judge/Executive's Response: Please see attachment.*

*Auditor's Reply: Supporting documentation provided only detailed what the purchases were for and did not include the actual invoice.*



**KNOX COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**For The Year Ended June 30, 2009**  
**(Continued)**

**INTERNAL CONTROLS - SIGNIFICANT DEFICIENCIES & MATERIAL WEAKNESSES**

**2009-04 The County Should Maintain Complete And Accurate Capital Asset Schedules To Comply With GASB 34 Requirements**

The County did not have a completed capital asset schedule for fiscal year ending June 30, 2009. A list of capital asset additions and disposals were not properly maintained. A schedule of additions should be maintained as assets are purchased to simplify the process of updating the capital asset schedule. The schedule should include the date the asset is acquired, a description of the asset, the vendor name, and the amount. Invoices for asset acquisition and invoices for all other disbursements should be kept on file in a manner that allows retrieval of the original invoice for review and verification as needed by management and auditors. Further, we believe that the capital asset listing should be monitored and maintained on a regular basis. As new assets are acquired they should be added to the listing. As equipment is disposed of it should be removed from the listing. We recommend that the County maintain complete and accurate capital assets schedules to comply with GASB 34 requirements.

We further recommend that the fiscal court should take a physical inventory of its capital assets on a regular basis (such as every two to three years) or at the beginning of a new administration to ensure that only active, in-service machinery and equipment is included on the County's financial statements. This will ensure that fixed assets are properly stated and that depreciation is being calculated from a reliable listing.

*County Judge/Executive's Response: This issue is in the process of being corrected.*

**2009-05 The Jail Should Improve Their Internal Control Procedures**

The Jail was reopened in January 2008. The Jail does not have policies and procedures in place for establishing an adequate segregation of duties and safeguarding assets. We recommend the following procedures be implemented to strengthen the internal control weaknesses:

- An independent person should list all receipts and agree them back to the receipts ledger. A listing of all receipts for that day detailing the date received, the amount, type of transaction, whom it is from, and what the amount is for should be maintained. The receipts should be reconciled to the Jail Tracker software.
- An independent person should open the bank statements and review them for unusual items, such as debit memos and overdraft charges, and initial the bank statement as an indication of their review. A separate person should reconcile the bank statements to the Jail Tracker software.
- An independent person should review the reconciliation for accuracy. This person should initial the reconciliation to document the review was performed.

**KNOX COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**For The Year Ended June 30, 2009**  
**(Continued)**

INTERNAL CONTROLS - SIGNIFICANT DEFICIENCIES & MATERIAL WEAKNESSES  
(Continued)

2009-05 The Jail Should Improve Their Internal Control Procedures (Continued)

- An employee independent of check writing and posting duties should match purchase orders to checks and invoices. The person who signs the checks should also cancel the purchase orders and invoices to ensure invoices are not paid twice. The disbursements should be reconciled to the Jail Tracker software.
- An independent person should requisition and purchase all items for the canteen. A separate person should reconcile, post and physically count on a monthly basis the inventory maintained by the canteen.
- The receipt of cash, disbursement of cash and posting of cash should be delegated to separate individuals for better internal controls.
- The jail should implement stronger internal controls over the computer system. All transactions should be backed up daily on a disk and should be secured off-site.
- The Jailer is required to submit an annual report to the county Treasurer on the canteen account.

KRS 441.135 states, "All profits from the canteen shall be used for the benefit and to enhance the well-being of the prisoners. The jailer shall keep books of accounts of all receipts and disbursements from the canteen and shall annually report to the county treasurer on the canteen account."

Financial statements were not prepared, and an annual report was not submitted for the fiscal year ending June 30, 2009.

We recommend the Jailer implement these procedures for adequate segregation of duties and safeguarding assets.

*Jailer's Response: We are working with Jail Tracker and our purchasing officer to clear this matter up.*

NONCOMPLIANCE

2009-06 Vacation Leave Should Not Be Accrued For Employees

During our review of employee vacation leave, we noted vacation leave was being carried forward from year to year. According to the County Administrative Code, Section 3.43: G, "Vacation time accumulates annually, January 1st – December 31st. All vacation time must be taken annually, no carryovers."

We recommend that the Fiscal Court implement policies to correct vacation leave time that employees have accrued and carried forward to adhere to the approved County Administrative Code.

*County Judge/Executive's Response: No vacation time actually accrued, it was an error in record keeping. This has been corrected.*

**KNOX COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**For The Year Ended June 30, 2009**  
**(Continued)**

NONCOMPLIANCE (Continued)

2009-07 The County Should Ensure That The Same Level Of Health Insurance Benefits Are Provided To All County Employees As Stated In Kentucky Attorney General Opinion (OAG) 94-15

During the testing of payroll, auditors noted that county employees are not receiving the same level of health insurance benefits. Elected officials are receiving county-paid family coverage while others are paying for the extra cost for family coverage. During fiscal year ended June 30, 2009, the County paid as much as \$655 per month per employee for the additional costs of the family plan over the single plan. The County's Administrative Code states that the County promotes equal opportunity in matters of compensation and benefits. It further states that the County pays for an individual's health insurance policy but does not add that certain individuals will receive the family benefit as well. In September 2006, the County amended and approved an Administrative Code in which a provision was added that states:

“The County pays the premium for all individual health insurance policies offered by the county; except, however, the county will pay the premium for family health insurance plans for all elected county officials, senior executives and department heads as may be negotiated in their compensation package.”

In June 2007, the County amended and approved an Administrative Code in which the above provision still remains. OAG 94-15 states, “the basic statute providing for governmentally funded health coverage (KRS 79.080) for public employees does not provide for one level of coverage for officers, and another level for employees. Accordingly, we believe such differing coverage would not be lawful as not authorized by statute.” We recommend that the County comply with the Administrative Code and provide the same level of benefits to all county employees. We further recommend that the Fiscal Court seek legal advice from the County Attorney as to the legality of not providing the same level of health insurance coverage for all employees as stated in OAG 94-15. We would also like to inform the county that though a procedure or policy be established in the County's Administrative Code, that the Administrative Code does not trump established laws, statutes, and regulations in order to make broader policies and that a narrower interpretation of policies or procedures may be permitted.

*County Judge/Executive's Response: Per our County Attorney, elected officials are not standard employees. Therefore, elected officials are not subject to the same rules in this case.*

*Auditor's Reply: In OAG 94-15, Kentucky's Attorney General finds no reasonable basis in the law for elected officials to offer a different level of health insurance coverage to non-elected, “standard” employees than that available to the elected officials themselves. “In our view, such different level of coverage would be arbitrary and would involve other than equal treatment of the law and thus would be violative of sections 2 and 3 of Kentucky's Constitution.” The Auditor strongly recommends the County Attorney reconsider his opinion, and urge the County to provide health insurance benefits to all county employees equally, in conformity with the opinion of the Attorney General, the Chief Law Officer of the Commonwealth.*

**KNOX COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**For The Year Ended June 30, 2009**  
**(Continued)**

NONCOMPLIANCE (Continued)

2009-08 The County Judge/Executive Or A Designated Person Should Keep And Maintain Required Records

The Judge/Executive does not maintain an appropriation ledger that is separate from the treasurer, and does not reconcile it monthly as required by Kentucky Revised Statutes and The Department for Local Government Policy Manual. Also, purchase orders are not issued for every expenditure, nor is a purchase order listing maintained.

We recommend the following procedures and recommendations be followed by the Judge/Executive:

- Maintain an appropriation ledger
- Reconcile the appropriation ledger with the treasurer's appropriation ledger at least once a month
- Issue purchase orders and maintain a purchase order log (purchase orders should be properly authorized)

*County Judge/Executive's Response: The Judge/Executive's and Treasurer's computers are networked together and use the same software. The issue concerning purchase orders is in the process of being corrected.*

2009-09 The Fiscal Court Minutes Should Be Complete, Adequately Maintained, And Filed In The Proper Location

During our review of the fiscal court minutes, we found that an employee that works in the county judge/executive's office had been appointed to be the fiscal court clerk. In addition, the minute books are being filed in the county judge/executive's office. KRS 67.120(1) states that a fiscal court clerk may be appointed by the fiscal court if the county clerk declines to serve as the fiscal court clerk. KRS 67.100(5), however, states that the minute books shall be kept in the office of the county clerk. We recommend the county comply with KRS 67.100(5) and file the fiscal court minutes in the office of the county clerk.

It should be noted that the fiscal court minutes have significantly improved since the current administration took office. In an effort to increase controls over the fiscal court minutes, we recommend that the minutes of the court be stored in the County Clerk's office because the minutes are a matter of public record and for public viewing and therefore should be maintained in the County Clerk's office. The pages of the minutes and the claims list should be sequentially numbered and signed by all members of the fiscal court certifying that they are correct and complete. All supporting documentation should be located in the minutes as well in order to support any decision made by the court. Also, we recommend that contracts, legal documents, and other documents that may bind the County should not be signed by anyone other than the proper County employees or officials.

*County Judge/Executive's Response: We agree and this issue is in the process of being corrected.*

**KNOX COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**For The Year Ended June 30, 2009**  
**(Continued)**

NONCOMPLIANCE (Continued)

2009-10 The County Should Incorporate Any Future Knox County Hospital Bond Default Obligations In Their Budget

On February 1, 2006, the former Knox County Judge/Executive entered into an agreement with a private corporation (Pacer Health Corporation) to lease the Knox County Hospital with an option for the Corporation to buy the Hospital. This agreement states that Pacer shall lease all of the assets for a fee of \$2,000,000, to be paid at closing. The agreement grants a purchase option, which is the current amount of bond debt reduced by closing fees and lease payments at the time the purchase option is executed. Review of county records reveal that the county didn't have ownership of the hospital at the time the agreement was entered into by the Former Judge/Executive. Ordinance Number 20060222-1 authorizing the county to assume full responsibility for the hospital operations was not effective until February 20, 2006, which is nineteen (19) days after the agreement was executed. This ordinance was not presented to the fiscal court until February 22, 2006, which is twenty-five (25) days after the agreement was executed and two (2) days after the effective date of the ordinance. Therefore, the former Judge/Executive did not have the authority to enter into this agreement to lease/sell the hospital. In addition, the agreement also held the County financially liable for a penalty of \$750,000 if the County did not follow through with the agreement.

KRS 67.0802 lists the methods by which counties may surplus property (real and personal). These methods include, and are limited to: auction, electronic auction, sealed bid, and transfer to another governmental entity. On July 11, 2006, an Interim Management Agreement and Lease and Operating Agreement was amended to extend the final agreement deadline. The agreement was finalized in December 2006. A summary of the lease terms is as follows:

1. Pacer will have control of the Hospital Facility.
2. Pacer will collect all revenues and pay all expenses in the operation of the Hospital.
3. Pacer will make monthly lease payments to the Trustee of the 2006 Bonds in an amount equal to the debt service on the 2006 Bonds.
4. Pacer will pay all expenses associated with maintaining and insuring the Hospital.
5. Pacer will pay any leasehold tax payments due under Kentucky Law and will pay in lieu of tax payments on December 1 of each year to the County.
6. Once the new Series 2006 Bonds are paid, Pacer has the option to take title to the Hospital as owner.
7. Pacer will provide the County with financial reports but it will be solely responsible for the operation of the Hospital and will not have to seek approval from the County for its management functions.

We recommend the County take actions to ensure proper approval of transactions by Fiscal Court and that proper disposal of assets laws are followed. We also recommend the County take possession of financial reports when possible and obtain debt confirmations periodically to ensure that the debt payments are being made in regards to the 2006 Hospital Bonds. In addition, a current audit of the Knox County Hospital has not been performed; therefore we recommend that the County request such documents when they become available. We understand that legal counsel has been obtained to review the legal status in regards to contractual obligations being fulfilled. We further understand that Pacer has defaulted on the June 2009 bond obligation and the County paid the bond payment out of the debt reserve fund which was replenished by Cumberland Clinic LLC who bought out Pacer's contract in November 2009. We recommend the Fiscal Court incorporate the possible liability issues associated with the bond defaults and legal costs associated with the resolution of these contracts within its future budget process.

**KNOX COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**For The Year Ended June 30, 2009**  
**(Continued)**

NONCOMPLIANCE (Continued)

2009-10 The County Should Incorporate Any Future Knox County Hospital Bond Default Obligations In Their Budget (Continued)

*County Judge/Executive's Response: This is bonded by our General Obligation Bonds. Therefore, not budgeted for.*

2009-11 The County Should Monitor Bonding Requirements For All Elected And Appointed Officials

During our testing of bonded officials of the County, we noted the following items: 1) The Finance Officer did not have a bond in place for fiscal year ending June 30, 2009. 2) The Occupational Tax Administrator did not have a bond in place for fiscal year ending June 30, 2009. The Fiscal Court does have an employee dishonesty rider on its insurance policy; however, the rider specifically states that it does not cover tax collectors or officers.

We recommend the Fiscal Court immediately bond the Occupational Tax Administrator and the Finance Officer. We also recommend that the County implement policies and procedures for monitoring bonding requirements of all elected and appointed officials.

*County Judge/Executive's Response: We agree and the issue has been corrected.*

2009-12 The County Failed To Monitor Federal Grant Funds

The County is the recipient of a five-year federal grant program. Of the \$200,000 program budget submitted, 50% is funded by federal funding and 50% by local matching funds. The County receives and disburses the federal funding. No reconciliation of disbursements to the program budget or review of the allowability of the disbursements is monitored as required by the federal program. Upon review of invoices paid with federal funding by the County, several items were noted that were not in the original budgets or appeared excessive. Travel for five people and two conferences were not in the budget. Also ink for two printers purchased with only one of each in the budget to be purchased with local match monies, not federal dollars. Therefore, the County is paying for items not budgeted for within the allowable federal expenditures. No information was available as to whether the local match requirement was met. Should the federal oversight agency audit or review this program, the county could incur disallowed or questioned costs associated with this program and have to reimburse federal funds spent.

We recommend the county implement policies and procedures to adequately monitor federal grant programs. We recommend a reconciliation of budget to actual expenditures be performed on a monthly basis to ensure that all dollars spent are allowable. We further recommend the county monitor whether the local matching requirement is met to ensure disallowed expenditures or questioned costs will not occur.

*County Judge/Executive's Response: Attached are correspondences with DFC Grants Management Specialist in reference to the printer and travel mentioned above. Local DFC Program Director and Knox County UNITE Coalition secretary are working collaboratively on a monthly basis with the Knox County Fiscal Court Treasurer to ensure that actual budget expenditures are allowed within the fiscal year budget. DFC Program Director has a log containing matching requirement on file in her office.*

**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**KNOX COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2009**



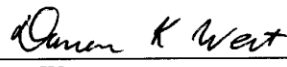


CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM  
KNOX COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2009

The Knox County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
\_\_\_\_\_  
J. M. Hall  
County Judge/Executive

  
\_\_\_\_\_  
Darren West  
County Treasurer

